UNITED
NATIONS

TD

United Nations
Conference
on Trade and
Development

Distr.
GENERAL

TD/B/COM.1/EM.5/1
24 February 1998

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Trade in Goods and Services, and Commodities
Expert Meeting to Examine the Effectiveness and Usefulness
for Commodity-dependent Countries of New Tools in
Commodity Markets: Risk Management and Collateralized Finance
Geneva, 4-6 May 1998
Item 2 of the provisional agenda

ADOPTION OF THE AGENDA

Provisional agenda and annotations

I. PROVISIONAL AGENDA

1. Election of officers

2. Adoption of the agenda

3. Examination of the effectiveness and usefulness for commodity-dependent countries of new tools in commodity markets: risk management and collateralized finance

4. Adoption of the outcome of the Meeting

GE.98-50212

II. ANNOTATIONS TO THE PROVISIONAL AGENDA

Item 1 - Election of officers

1. It is recommended that the Expert Meeting elect a Chairperson a id a Vice-Chairperson-cum-Rapporteur.

Item 2 - Adoption of the agenda

2. The provisional agenda for the meeting is contained in section I above. The schedule of meetings for the three days is attached to this document.

Documentation

TD/B/COM.1/EM.5/1 Provisional agenda and annotations

Item 3 - Examination of the effectiveness and usefulness for commodity-dependent countries of new tools in commodity markets: risk management and collateralized finance

(a) The usefulness of commodity price risk management and warehouse receipt finance

3. The Expert meeting may wish to address this item on the basis of the specific topics set out below.

4. While modern market-based commodity trading instruments, such as price risk management tools and various sophisticated techniques to facilitate finance through the use of commodities as collateral, are not a panacea, they can serve such goals as securing budgets, improving cash flow management, improving access to credit and reducing credit cost. Under this topic, the experience in using these instruments of commodity producers and traders in developing countries and countries with economies in transition will be examined. This will make it possible to determine better the possibilities and limits of these instruments, and the constraints on their better use.

(b) Structuring longer-term finance around commodity collateral

5. The progress in financial engineering techniques has been particularly fast in recent years. Commodity producers and others controlling, in one way or another, commodity assets now have the choice of a wide array of financing strategies. Several of these strategies are centred around the use of commodities, or the likely earnings from commodities, as collateral to make financing more secure and thus more attractive to lenders. However, such strategies can be complex, and set-up costs can be significant. Under this topic, the role of these strategies using commodities as collateral will be examined on the basis of practical experiences with a view to formulating conditions under which they can outperform other financing techniques. Constraints on the use of these strategies will also be discussed.

(c) Controls on the misuse of price risk management instruments

6. Among decision-makers, not only in Governments but also in many companies, the fear of using market-based price risk management instruments can be strong. The costly and well publicized experiences of companies such as Barings, Sumitomo and Union Bank of Switzerland can lead persons to assume that price risk management markets are dangerous to use. In practice, however, such losses are the exception to the rule, and most companies which use risk management markets do so rather successfully; very few, if any, have halted this use because of these large losses by other companies. Under this topic, the real dangers of not properly controlling the use of price risk management markets will be discussed, along with the implications for government and corporate policies.

(d) Government exposure to price risks, and practical solutions

7. Governments do not only set the framework within which the private sector can engage in price risk management (and access markets for collateralized finance); they are often also exposed in a more or less direct way to commodity price fluctuations. The level of tax and royalty income on exports and the level of subsidies necessary for parastatal companies or consumers (for crucial imported commodities such as fuels and cereals) are likely to vary directly with world market commodity prices. If these taxes/royalties and/or subsidies are important for the government budget, it may be worthwhile for the government to externalize some of these risks using commodity price risk management markets. The experience in this area will be evaluated, and implications for government policy discussed.

(e) The potential role of the international community in improving commodity price risk management and financing practices

8. Traditionally, international commodity policies have been supply- or demand-oriented. It can be argued that nowadays, transaction-oriented policies, which focus on the processes through which the commodity passes from production to consumption, can be at least as effective. While promoting the use of market-based commodity price risk management and collateralized finance instruments is only part of such policies, it can make a significant contribution to improving the efficiency of commodity trade, to the benefit of both producers and consumers. International organizations working on commodity policies, including international commodity bodies, can play an important role in this regard. Under this topic, the possibilities that exist, and in particular the ways in which international commodity bodies can incorporate price risk management and collateralized finance into the core of their strategies, will be examined.

Documentation

TD/B/COM.1/EM.5/2	"Examination of the effectiveness and usefulness for commodity dependent countries of new tools in commodity markets: risk management and collateralized finance: report by the UNCTAD secretariat"

9. The Expert Meeting will adopt its recommendations, findings/conclusions at the end of the

Meeting. The final report will be complied under the authority of the Chairperson after the conclusion of the Meeting.

Schedule of meetings

Monday 4 May	Tuesday 5 May	Wednesday 6 May
10 a.m. Plenary Opening of the meeting Election of officers; Adoption of agenda. Informals Item 3 Sub Item 3(a)	10 a.m Informals (cont'd) Item 3 Sub Items 3(b) and 3(c)	10 a.m Informals (cont'd) Item 3 Sub Items 3(d) and 3(e)
3 p.m. Informals (cont'd) Item 3 Sub Items 3(a) and 3(b)	3 p.m. Informals (cont'd) Item 3 Sub Items 3 (c) and 3(d)	3 p.m. Informals (cont'd) Consideration of the outcome of the Meeting Plenary Adoption of the outcome of the Meeting